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TAGS: EAIR EWWT ECON PREL TW CH
SUBJECT: TAOYUAN FTZ - UNREALISTIC CLAIMS OF PENDING DIRECT AIR LINKS

REF: AIT TAIPEI 2997

Classified By: AIT TAIPEI DIRECTOR DOUGLAS H. PAAL, REASONS 1.4 (B/D)

Summary

¶1. (C) The Taoyuan Free Trade Zone near Taipei,s Chiang Kai-shek airport is a key component of Taiwan,s Global Logistics Development Plan (reftel). The Far Glory Group will build the FTZ under a build-operate-transfer (BOT) contract. Far Glory plans to invest NT$ 21.3 billion (USD 636 million) in the project. However, unrealistic claims about cross-Strait links, vague explanations of the special benefits of the FTZ, and unwillingness to build to tenants' specifications suggest the project may face difficulties finding customers.

Far Glory's Big Plans for Taoyuan FTZ

¶2. (U) The Taiwan government is implementing its Global Logistics Development Plan. In addition to free trade zones in Taiwan's two largest ports (reported reftel), a third key element in the plan is a free trade zone near Taipei's Chiang Kai-Shek Airport in Taoyuan. Taiwan's Far Glory Group is developing the Taoyuan FTZ under a build-operate-transfer (BOT) contract with the Taiwan government.

¶3. (C) Far Glory is a diversified conglomerate with interests in real estate development, construction, tourism and insurance. It also currently operates the Far Glory Air Cargo Terminal near Chiang Kai-Shek Airport. The Taiwan Civil Aeronautics Administration (CAA) announced the tender for construction of the Taoyuan project in May 2002. At that time it was known as the &Taoyuan Air Cargo Park.8 CAA officials tell AIT that about 30 firms placed bids on the project. Far Glory's experience in developing the Far Glory Air Cargo Terminal helped it win the project. However, other observers have pointed out that Far Glory's executives have close ties to the Chen Administration. One source told us Far Glory's Chairman Chao Teng-hsiung was a member of President Chen's party on his last trip to Latin America.

¶4. (U) According to the BOT contract, Far Glory will build and manage the FTZ for 50 years, after which Far Glory will turn the FTZ over to the Taiwan government. Far Glory plans to invest a total of NT$ 21.3 billion (USD 636 million) in the project and has already spent NT$ 1 billion (USD 30 million) in the first phase. A consortium of 10 banks headed by Taiwan's Chao Tung Bank has invested another NT$ 3 billion. Far Glory executives say that the FTZ will target the needs of high-tech companies to rapidly produce and customize products in response to customer orders.

Shift in Focus, Unrealistic Claims

¶5. (C) Far Glory executives marketing the Taoyuan FTZ have made unrealistic claims about what kind of cross-Strait access the FTZ will be able to provide. They have expressed confidence that the FTZ will be able to service direct aviation links with the Mainland. In addition, they told AIT that Mainland Chinese will be able to stay in the FTZ for up to 72 hours without visas or entry permits. According to MAC Department of Economic Affairs Director Fu Don-cheng, the Taoyuan FTZ was originally conceived as a zone whose primary purpose would be to facilitate cross-Strait links. It was subsequently reformulated as a free trade zone. This helps explain why Far Glory makes these unlikely claims about cross-Strait travel and transportation to the FTZ.

¶6. (C) Fu and other officials have told AIT that after the December Legislative Yuan elections, the Chen Administration is likely to move actively toward opening a dialogue with the Mainland on direct aviation links. Even assuming that such an opening occurs, it is still optimistic to predict direct flights by the projected opening of the Taoyuan FTZ in November 2005. Fu also says that the only travel benefit for Mainland Chinese going to the FTZ will be reduced visa processing time. He says that they should be able to acquire their visas in less than 10 days compared to the current

procedures that can take up to a month. This is very similar to proposals under consideration that would be applied to all PRC travelers to Taiwan.

¶7. (C) Direct links are even more important to the success of the Taoyuan FTZ than to the Keelung and Kaohsiung free ports. The additional time and expense of passing through Hong Kong or Japan are proportionally smaller for sea freight. In fact, one source tells us that some ships find ways to obtain the necessary documentation without actually stopping in a third port, for example by having Japanese customs officials meet the ship at sea to provide the documentation. For air cargo the extra hours and expense imposed by a transit stop are considerable. In addition, Keelung and Kaohsiung Harbors have newly-established offshore transshipment centers that allow cargo coming directly from the Mainland to be offloaded and loaded in the transshipment centers as long as it is then shipped to a third location without passing through Taiwan customs.

Marketing Problems

¶8. (C) Although Far Glory has claimed that firms such as IT manufacturers Quanta, Asustek and Hewlett-Packard are interested in occupying space in the FTZ, the firms themselves have yet to publicly express interest. Quanta Group Deputy Spokesman Jason Lin told econoff that Quanta's interest is not high. He noted that Quanta's manufacturing facilities in Taiwan already enjoy many of the benefits of the FTZ, including exemption of customs duties on imported components that are re-exported and expedited customs clearance.

¶9. (C) DHL Taiwan Director of Operations Nick Chen pointed out that in addition to making unrealistic claims about the certainty of cross-Strait access for the FTZ, Far Glory has also been vague about other benefits that will be available to firms in the FTZ. Far Glory has not been able to explain in detail to potential tenants the customs clearance procedures or tax exemptions for the FTZ. Chen also noted that many high-tech firms, including tenants of the Hsinchu Science and Technology Park already enjoy similar benefits. DHL's plan is to wait and see how many other firms move into the FTZ. If there is enough interest by potential DHL customers, DHL will consider establishing a facility.

¶10. (C) Another potential problem for the Taoyuan FTZ is that Far Glory plans to build most of the FTZ facilities first and them fill them with tenants, as opposed to a build-to-suit approach of identifying tenants and then building the facilities they need. Sharon Hann, marketing director for commercial real estate consulting firm NAI Taiwan, who has worked with Far Glory on other projects, points out that this may be especially problematic for high-tech firms, which often have unique specifications for manufacturing facilities. Taiwan Association of Logistics Management Secretary General James Cheng explained that this type of development approach was one of the mistakes that contributed to the failure of the Taisugar Logistics Park (reftel).

Comment) Warning Bells

¶11. (C) Unrealistic claims about cross-Strait links, vague explanations of the special benefits of the FTZ, and unwillingness to build to tenants' specifications are all troubling signs that Far Glory will not be able to make the Taoyuan Free Trade Zone a success. With projected investment of over USD 600 million, the potential losses are high. Under the BOT contract, the financial risk borne by the Taiwan government may be low, but the prospects for the Global Logistics Development are not good.
PAAL